

Blueprint Maryland

THE STATE'S HOUSING ECONOMY IN REVIEW VOLUME 2 ISSUE 7

Low Housing Inventory Fuels Gains in Home Prices

The Maryland housing market continued its strong performance in April. Single-family home sales increased to 8,377 units, while the median sale price rose to \$275,846, up 147.1 percent and 93.6 percent from January 2000, respectively.

The strength of the Maryland housing market is attributable to such factors as low interest rates, general economic conditions, and the trends in the demand for and supply of housing. These trends, generally measured by home sales and housing inventory, are manifested in an indicator called the unsold inventory, which measures the shortage or the

excess of housing units available for sale in a given period.

Unsold inventory, or months' supply, represents the number of months it would take to deplete the existing inventory of homes at the current sales pace. This indicator provides important insights into the present condition, as well as the future direction of the housing market, as it embodies both the demand for and supply of housing. A continuing rise in inventory serves as an early warning indicator of an emerging slowdown in the housing market, increasing competition, and declining home prices. Our statistical analysis shows that the unsold inventory has a very strong correlation with home prices, and can be used

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National Economic Digest

U.S. GDP Posts Strong Improvement

The most recent data on the performance of the national economy showed that the economy grew by 3.8 percent in the first quarter of 2005, the same rate as in the fourth quarter of 2004. The strength of the national economy in this quarter was due to the booming housing market and a narrower trade deficit. Real investment in residential structures for the current quarter was 11.6 percent, compared to 3.4 percent in the fourth quarter of 2004. Furthermore, exports grew by 8.9 percent in this quarter, about three times as fast as the 3.2 percent rate recorded in the previous quarter. Meanwhile, the rate of growth of imports and non-residential fixed investment declined to 9.6 percent and 4.1 percent, compared to 11.4 percent and 14.5 percent rates posted in the previous quarter, respectively. Real personal consumption expenditures increased 3.6 percent in the first quarter, compared with an increase of 4.2 percent in the fourth. Similarly, real

government spending rose by 0.2 percent, compared to 0.8 percent recorded in the last quarter. Corporate profits rose in the first quarter, but at a slower pace of 6.0 percent, compared to 13.5 percent in the previous quarter. Much of the reason for the weaker growth in profits was due to the expiration of bonus depreciation allowances in the corporate income tax. The price index for gross domestic purchases, which measures prices paid by U.S. residents, increased 2.7 percent in this quarter compared to an increase of 2.9 percent in the fourth quarter of 2004. Excluding food and energy prices, the GDP price index rose 2.7 percent, compared with an increase of 2.0 percent in the previous quarter.

Beige Book Reports an Expanding Economy

The Federal Reserve's Beige Book shows a maturing expansion for the national economy with business activity continuing to expand at a moderate pace from mid-April through May. Facilitated by the low long term interest rates,

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ROBERT L. EHRLICH, JR.
Governor

This issue of *Blueprint Maryland* shows that the housing market continues its strong upward trend in Maryland. This strength is attributable to historically low interest rates, a strong job market, a very active trade-up market supported by significant home equity gains, and the availability of non-traditional mortgage loan products such as the interest only loans. As a result, the median sale price of existing homes in Maryland has grown by about 84 percent since the first quarter of 2000, nearly twice as fast as the national average. To make homeownership more affordable, the More House 4 Less program of the Maryland Department of Housing and Community Development has introduced creative financings for low-to-moderate income homebuyers that would lessen the impact of recent home price increases. In addition to its traditional 30-year fixed program, the Department is now offering a 40-year fixed rate mortgage loan with no minimum borrower contributions, and a 35-year fixed rate mortgage loan with interest-only payments for the first five years. The More House 4 Less program has helped nearly 3,000 Marylanders to become homeowners. To learn more about these products visit www.morehouse4less.com.

as a housing market leading indicator. Therefore, the near term changes in housing prices can be projected by fluctuations in the volume of unsold inventories.

Data corresponding to the housing market incorporates strong seasonal factors. To eliminate the seasonality factor, the monthly or quarterly data are often analyzed on a year-over-year basis. Utilizing the latest published data, the first quarter to first quarter comparison demonstrates a measurable and continuous decline in the supply of homes available for sale in Maryland. Over the past few years, the number of months that it took to deplete the existing housing inventory in Maryland has declined significantly (Exhibit 1). From the first quarter of 2000 to the first quarter of 2005, existing home sales in Maryland increased by 56.9 percent to 19,769 units, while the inventory of homes available for sale declined by 56.1 percent to 33,095 units, causing the supply of homes to decline by 72.0 percent, or 4.3 months, to a very tight 1.7 months. Over the same period, existing home sales in the U.S. increased by 47.6 percent to 344,000 units, while the inventory of available homes rose by 21.8 percent to 2,258,000 units. As a result, the supply of unsold homes declined by 0.4 months to 4.0 months in the first quarter of 2005. At the regional level, the supply of homes available for sale appears to be even tighter than at the state level. Compared to the first quarter of 2000, existing home sales in the Washington suburban region grew by 56.8 percent, while the housing inventory declined by 64.6 percent, pushing the supply of unsold homes down 77.4 percent to a mere 1.1 months. Similarly, in the Baltimore region, existing home sales rose by 59.7 percent, while the inventory went down by 57.6 percent, causing the months' supply to decline by 73.5 percent to 1.7 months — comparable to the statewide average. In the neighboring Northern Virginia jurisdictions, existing home sales increased by 34.9 percent, the inventory declined by 52.9 percent, and the supply declined by 65.1 percent to 0.8 months. Thus, the sharp drop in the supply of homes for sale in Maryland and Northern Virginia over this period is due to a simultaneous and counter directional change in both demand for and supply of housing units. According to the National Association of Realtors, in a balanced housing market, the number of months it takes to deplete the existing inventory at current sales pace should be about six months.

The dramatic rise in existing home sales combined with a severe decline in the inventory of available homes resulted in an unprecedented rise in home prices. From the first quarter of 2000 to the first quarter of 2005, median home prices increased by 84.4 percent to \$255,137 in Maryland, by 101.3 percent to \$305,453 in the Washington suburban region, by 75.8 percent to \$216,833 in the Baltimore region, and by 113.8 percent to \$421,667 in Northern Virginia. Nationally, however, the increasing pace of home price

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EXHIBIT 1: UNITS SOLD, INVENTORY AND HOME PRICES

First Quarter, 2000-2005

JURISDICTION	Units Sold	Housing Inventory	Months' Supply	Median Price
Maryland				
2000	12,601	75,341	6.0	\$138,394
2005	19,769	33,095	1.7	\$255,137
% Change	56.9%	-56.1%	-72.0%	84.4%
Washington Suburban Region				
2000	4,570	21,455	4.7	\$151,717
2005	7,164	7,604	1.1	\$305,453
% Change	56.8%	-64.6%	-77.4%	101.3%
Baltimore Region				
2000	5,590	36,077	6.5	\$123,342
2005	8,925	15,289	1.7	\$216,833
% Change	59.7%	-57.6%	-73.5%	75.8%
Northern Virginia				
2000	4,239	10,221	2.4	\$197,267
2005	5,718	4,811	0.8	\$421,667
% Change	34.9%	-52.9%	-65.1%	113.8%
U.S.				
2000	233,000	1,854,333	4.4	\$131,333
2005	344,000	2,258,000	4.0	\$190,333
% Change	47.6%	21.8%	-9.2%	44.9%

Washington suburban region includes Montgomery, Prince George's and Frederick counties.

Baltimore region includes Anne Arundel, Baltimore, Carroll, Harford and Howard counties, as well as Baltimore City.

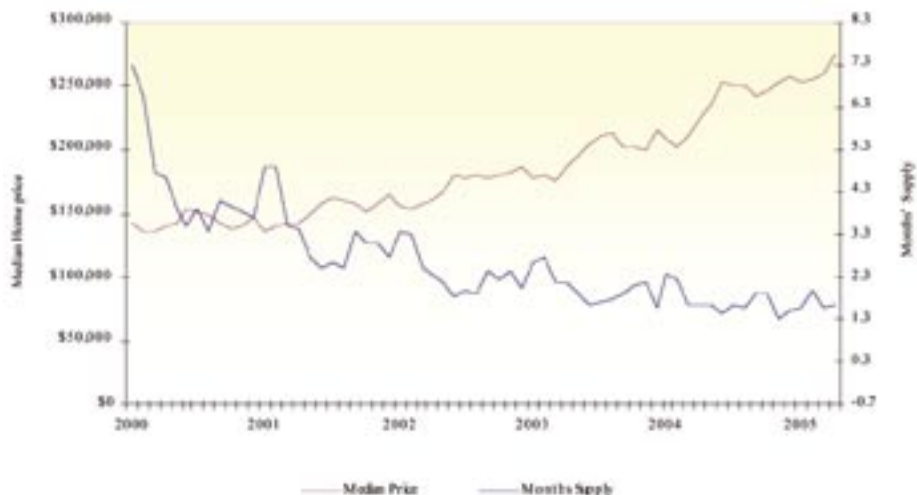
Northern Virginia jurisdictions include Fairfax County, Fairfax City, Arlington County, Alexandria City, and Falls Church City.

Source: Metropolitan Regional Information Systems, Inc.

Our statistical analysis shows that about 90 percent of the variations in median home sale prices in Maryland can be explained by the changes in the unsold inventory of housing units. According to this analysis, every added month of unsold home inventory results in a \$22,494 decline in the median home sale price.

EXHIBIT 2: MEDIAN HOME PRICES AND MONTHS' SUPPLY OF EXISTING HOMES IN MARYLAND

2000-2005



appreciation was slower, as the median home prices increased by 44.9 percent to \$190,333. Data collected for the period of January 2000 to April 2005 show that there is a very strong correlation between the median home sale prices and the magnitude of the months' supply variable, lagged by one month. (See Exhibit 2.) For example, the median sale price of existing homes in April can be explained by the value of the months' supply in March. Our statistical analysis shows that about 90 percent of the variations in median home sale prices in Maryland can be explained by the changes in the unsold inventory of housing units. According to this analysis, every added month of unsold home inventory results in a \$22,494 decline in the median home sale price. On average, the predicted value of home prices over the 2000-2005 period differ from the actual value by about 0.4 percent. (See Exhibit 3.) Utilizing this statistical model and based on the actual value of the unsold inventory for April 2005, the model's projection for the median home sale price in Maryland for May 2005 is \$287,278, up 4.1 percent from its value in April. The median home sale price for May, as reported by the Maryland Association of Realtors, was \$287,439, only \$161 more than the predicted value. ■

On average, the predicted value of home prices over the 2000-2005 period differ from the actual value by about 0.4 percent. Utilizing this statistical model and based on the actual value of the unsold inventory for April 2005, the model's projection for the median home sale price in Maryland for May 2005 is \$287,278, up 4.1 percent from its value in April.

EXHIBIT 3: ACTUAL VS. FORECASTED MEDIAN HOME PRICES IN MARYLAND

YEAR	MEDIAN HOME PRICES		Error
	Actual	Forecast	
2000	\$143,258	\$142,909	-0.2%
2001	\$151,586	\$159,074	4.9%
2002	\$171,685	\$179,892	4.8%
2003	\$197,068	\$188,102	-4.5%
2004	\$236,314	\$232,292	-1.7%
2005	\$260,314	\$253,151	-2.8%
Average	\$193,371	\$192,570	-0.4%

Source: Maryland Department of Housing and Community Development

SAVE THE DATE

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GOVERNOR'S HOUSING CONFERENCE

2005

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ROBERT L. EHRlich, JR.
GOVERNOR
MICHAEL S. STEELE
LT. GOVERNOR

Residential Construction

Construction Spending Declined

The value of construction put in place declined by 0.9 percent in May. Total private construction declined by 1.6 percent, due to weaker residential and non-residential construction spending. Total public construction activity gained 1.7 percent this month, due to strong gains in transportation, power, sewage and waste disposal, and water supply and utility infrastructure. Private residential construction declined, for the third consecutive month, by 1.7 percent, showing growing caution by single-family and multi-family builders. Private non-residential construction spending was down by 1.6 percent, because of weaker commercial building activity (down 1.7 percent), office building activity (down 1.2 percent), and lodging spending (down 2.4 percent).

Housing Market Index Up and Builders' Optimism Strong

The National Association of Home Builders' Housing Market Index increased in June to 71, its highest reading since December 2004. Homebuilders' optimism is reflected in expectations of higher traffic of potential buyers and strong current sales, because of low long-term mortgage rates and a robust economic climate. The present conditions single-family sales index gained a point, reaching 77.

Optimism remained strong among builders as their outlook for the next six months improved by 2 points to 79. The builders' view of the traffic of potential buyers reached 54, its highest reading since August 2003.

Building Permits Up in Maryland

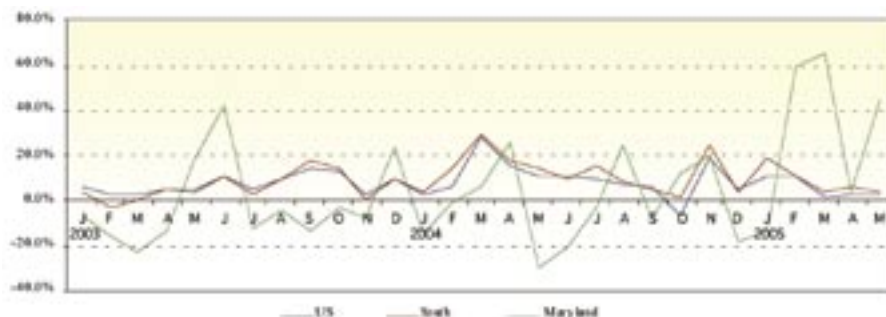
Privately owned building permits in the U.S. declined by 1.2 percent in May to 189,880 units. Multi-family

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The May volume of building permits issued in Maryland increased by 4.2 percent to 2,901 units. Single-family permits were down by 1.1 percent to 2,381 units, while multi-family permits increased by 37.6 percent to 520 units.

RESIDENTIAL BUILDING PERMITS – ALL UNITS

Percent Change from Same Month Previous Year



permits were down by 10.8 percent to 36,210 units, while single-family permits rose by 6.8 percent to 153,670 units. Compared to May 2004, single-family permits were up by 6.0 percent, while multi-family permits were down by 9.1 percent.

In the South region, the April volume of building permits declined by 1.0 percent to 88,200 units. The south region includes Maryland, Delaware, Washington, D.C., Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Tennessee, Kentucky, Louisiana, Arkansas and Texas. The region's single-family permits declined by 0.8 percent to 71,600 units, while its multi-family permits were down by 2.2 percent to 16,600 units. Compared to May 2004, residential building permits issued in the South region increased by 3.8 percent, as single-family permits increased by 9.9 percent, while multi-family permits declined by 16.2 percent.

The volume of building permits issued in Maryland increased by 4.2 percent to 2,901 units. Single-family permits were down in May by 1.1 percent to 2,381 units, while multi-family permits increased by 37.6 percent to 520 units. Compared to the same month last year, residential building permits issued for all units increased by 44.3 percent, reflecting increases of 246.7 percent for multi-family units, and 27.9 percent for single-family structures.

Housing starts decreased in the South region by 14.3 percent to 81,400 units in May, as single-family starts declined by 10.7 percent to 70,700 units, while the multi-family construction was down by 32.3 percent to 10,700 units.

Housing Starts Down in the South Region

Nationally, residential construction in May grew by 5.4 percent to 192,500 units. Single-family construction increased by 12.2 percent to 165,900 units and multi-family construction was down in May 23.3 percent to 26,600 units. Compared to the same month last year, housing starts in the U.S. rose by 5.1 percent, as single-family starts were up by 7.3 percent, while multi-family housing starts were down by 7.0 percent.

Housing starts decreased in the South region by 14.3 percent to 81,400 units in May, as single-family starts declined by 10.7 percent to 70,700 units, while the multi-family construction was down in May by 32.3 percent to 10,700 units. Compared to May 2004, residential housing starts were up 4.4 percent, reflecting an increase of 10.6 percent in the single-family construction, and a decline of 24.1 percent in multi-family housing activity.

RESIDENTIAL CONSTRUCTION – MAY 2005

COUNTY	PERMITS		STARTS		COMPLETIONS	
	Units	\$ Value ('000s)	Units	\$ Value ('000s)	Units	\$ Value ('000s)
Allegany	2	580	2	580	12	1,639
Anne Arundel	182	24,751	177	24,369	184	21,852
Baltimore	91	13,056	111	14,654	130	15,763
Baltimore City	69	7,802	68	7,670	202	27,609
Calvert	36	5,772	36	5,772	30	4,872
Caroline	1	113	1	112	11	2,837
Carroll	89	13,409	91	13,566	45	6,074
Cecil	76	10,232	76	10,233	69	8,263
Charles	65	14,404	65	14,404	56	10,127
Dorchester	0	0	0	0	20	3,318
Frederick	178	25,412	178	25,412	84	11,013
Garrett	40	8,044	40	8,044	27	4,820
Harford	187	27,795	176	26,212	98	14,784
Howard	169	25,822	162	25,196	86	11,754
Kent	2	230	2	230	17	2,785
Montgomery	425	90,144	341	85,671	175	24,373
Prince George's	287	54,699	257	52,699	129	21,061
Queen Anne's	33	4,316	33	4,316	54	8,341
Somerset	0	0	0	0	20	1,540
St. Mary's	83	11,014	67	9,949	109	13,716
Washington	110	16,136	108	15,773	85	13,809
Wicomico	103	10,040	82	8,713	45	5,315
Worcester	88	12,543	87	12,443	46	5,548
Others*	585	101,746	599	102,621	44	7,301
Maryland	2,901	\$ 478,060	2,759	\$ 468,639	1,778	\$ 248,514

* Permit data for Dorchester, Somerset and Talbot counties were not available at the time of this publication. Aggregate data for these counties are based on the projections made by the Census Bureau.

Housing starts in Maryland declined by 22.7 percent in May to 2,759 units. Across product types, single-family housing starts declined by 1.1 percent to 2,381 units, and multi-family starts were down by 67.5 percent to 373 units. Compared to May 2004, housing starts were up by 7.6 percent in Maryland, due to an increase of 27.9 percent in single-family, and a decline of 46.2 percent in multi-family construction.

Maryland Housing Completions Down

Nationally, housing completions in May increased by 18.3 percent to 174,000 units. Across the nation, single-family completions were up by 13.3 percent to 141,300 units, and multi-family completions were up by 46.0 percent to 32,700 units. Compared to May 2004, housing completions increased by 9.7 percent, as single-family completions were up by 13.0 percent, while multi-family completions edged down by 2.7 percent.

In the South region, housing completions increased by 16.5 percent to 80,400 units. Single-family completions were up by 11.2 percent to 64,600 units, and multi-family completions rose by 45.0 percent to 15,800 units. Compared to May 2004, housing completions in this region were up by 16.5 percent, due to increases of 10.8 percent in single-family completions and 182.1 percent in multi-family completions, respectively.

In Maryland, the number of housing units

completed declined by 31.2 percent to 1,778 units in May. The single-family completions in May decreased by 15.4 percent to 1,602 units and the multi-family housing completions were down by 74.5 percent to 176 units. Compared to the same month last year, housing completions were down by 3.4 percent in Maryland, as single-family completions were up by 11.9 percent, while multi-family completions were down 57.1 percent.

Residential Construction in Maryland Counties

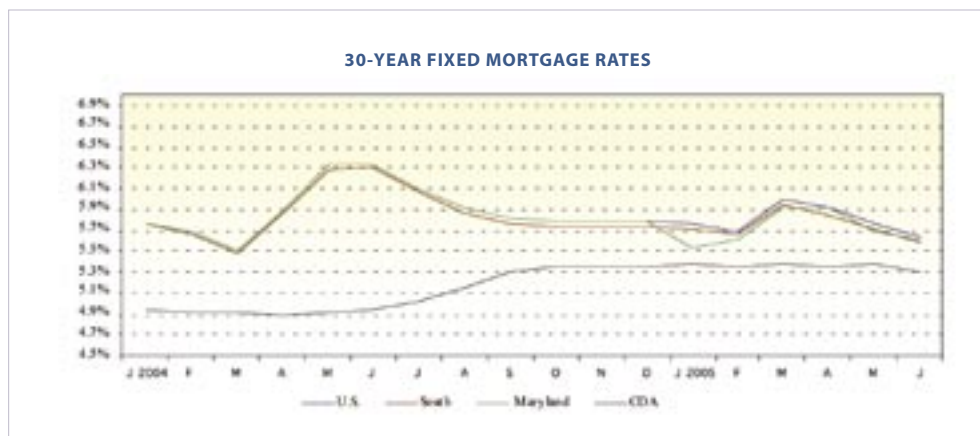
Across Maryland, the value of housing permits in May rose by 12.0 percent to \$478 million. Maryland jurisdictions that reported gains in the number and value of building permits issued for this month included Carroll, Cecil, Charles, Frederick, Harford, Montgomery, Prince George's, St. Mary's, Wicomico, and Worcester counties, and Baltimore City. Statewide, the value of housing starts decreased by 1.7 percent to \$469 million in May. Overall, seven Maryland jurisdictions reported gains in the number and value of housing starts, including Carroll, Charles, Frederick, Howard, St. Mary's, Wicomico and Worcester counties. The value of housing units completed in Maryland declined by 23 percent to \$249 million in May. Maryland jurisdictions that reported gains in the number and value of housing completions included Allegany, Calvert, Howard, Queen Anne's and Somerset counties, as well as Baltimore City. ■

Mortgage Rates

The effective 30-year fixed mortgage rates—rates that account for variations in points—fell in June 2005. From May to June, Freddie Mac's 30-year effective fixed mortgage rate declined from 5.78 percent to 5.63 percent in the U.S., and from 5.73 percent to 5.58 percent in the South region.

The 30-year fixed effective mortgage rate in Maryland declined from 5.70 percent in May to 5.62 percent in June. The Maryland commercial fixed mortgage rate is one basis point below the national rate.

The effective mortgage rate of the Community Development Administration (CDA), an arm of the Maryland Department of Housing and Community Development, stands at 5.38 percent. The CDA's Maryland Mortgage Program (www.morehouse4less.com) provides low-interest



mortgage loans to eligible homebuyers through private lending institutions throughout the State. The CDA's effective rate is now 24 basis points below the average effective commercial mortgage rates in Maryland, and 25 basis points below the Freddie Mac's national average rate. ■



Home Sales

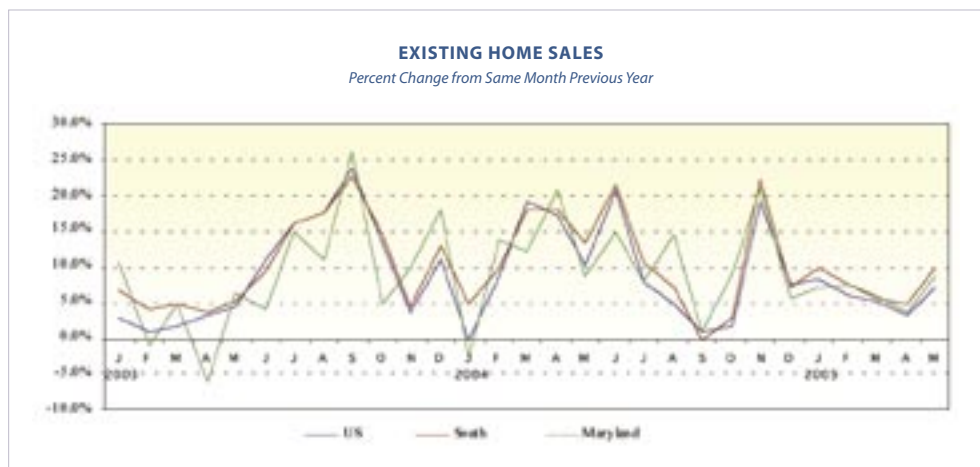
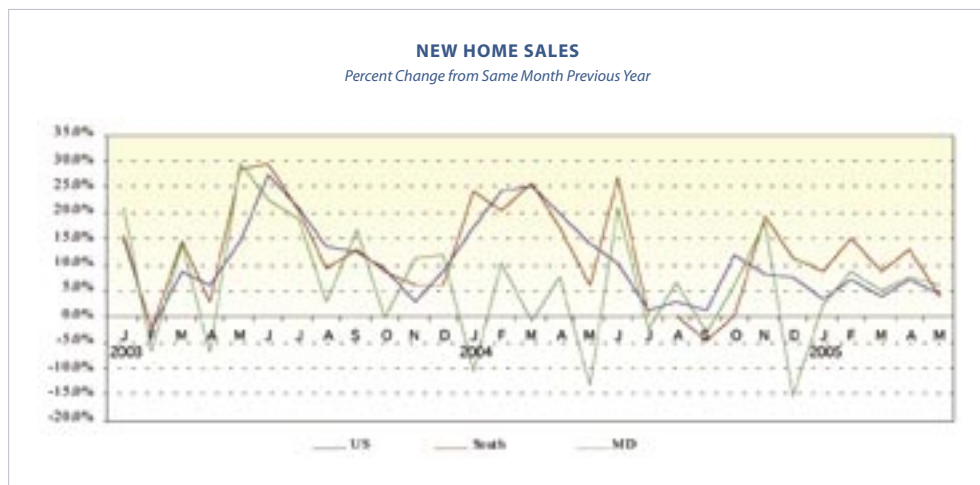
New Home Sales Rise, Prices Dip in May

New home sales in the U.S. rose 2.6 percent in May to 120,000 units, representing an increase of 4.3 percent from the previous year. The national median sales price fell sharply to \$217,000 in May, the lowest reading in eight months, representing a decline of 6.5 percent from April's sale price of \$232,200. The inventory of new homes for sale was up 1.4 percent in May, representing a 3.7 month supply or 439,000 available units. Nationally, the supply remained constant from last month's revised estimate of 3.7, but was up 11.0 percent from May 2004. In the South region, new home sales increased by 3.8 percent to 55,000 units in May, up 3.8 percent from the previous year. The inventory of new homes in this region was a 3.9 month supply or 212,000 units, representing a decline 0.3 percent from last month, and an increase of 15.4 percent from May 2004. Following the national trend, new home sales in Maryland were up 3.9 percent to 1,699 units in May, representing an increase of 5.8 percent from May 2004.

Existing Home Sales Holding Steady in May

Nationally, existing home sales rose sharply in May to 668,000 units, representing increases of 6.7 percent over last month's revised estimate, and 7.1 percent over May 2004. Total housing inventory rose 2.9 percent to 2,545,000 units in May, representing a 3.8 months' supply. The May supply of existing homes is down 3.6 percent from last month's revised supply of 4.0 months, and down 2.0 percent from last year. The median price of existing homes in

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the U.S. rose 1.0 percent in May to \$207,000, up 12.5 percent from May 2004. In the South region, existing home sales increased by 8.5 percent from April to 254,000 units, up 10.0 percent from May 2004. The median price of existing homes in this region rose 3.4 percent in May to \$181,000, up 7.7 percent from May 2004. Existing home sales were up in Maryland by 12.9 percent to 9,459 units in May, and up 8.5 percent from May 2004. The inventory of existing homes for sale in Maryland increased 7.2 percent to 14,925 units in May. However, the high volume of existing home sales in May resulted in a tight 1.6 month supply. The supply of existing homes in May was 5.0 percent below last month, and 3.1 percent below May 2004. The May median house price rose 4.2 percent to \$287,439, up 21.9 percent from the previous year.

Mortgage Applications Index Gained in June

The demand for mortgages, measured by Mortgage Bankers Association's Mortgage Applications Index, increased in June by 9.9 percent to 801.93, as 30-year fixed rates hit their lowest points since March 2004. The strength in the MBA's June index was due to a sharp rise in the refinancing index. The refinancing component rose by 21.2 percent to 2,608.43, while the purchase component increased by 1.3 percent to 491.42. Compared to the same month last year, the MBA index is up by 36.6 percent due to a 83.6 percent jump in the refinancing index. The purchased index is also up by 11.0 percent compared to June 2004.

The strength in the MBA index in the recent past has been mostly due to the declining mortgage rates. In June 2005, the Freddie Mac's 30-year fixed contract mortgage rate dropped 14 points from May to 5.58 percent. The rate on a one-year adjustable mortgage, however, rose by 0.1 points to 4.24 percent. Compared to the same month last year, the fixed rate was lower by 71 basis points, while the adjustable rate mortgage was higher by 14 points. Other factors driving the demand for home purchases are the trade-up market, supported by massive home equity gains, the strong job market, the availability of non-traditional mortgage loan products (e.g., interest only loans), and increases in speculative buying. It is expected that with the rate on a 30-year fixed mortgage declining to a 15-month low, the demands for home purchases and refinancing will remain strong, further driving up mortgage demand.

Pending Home Sales Index Up

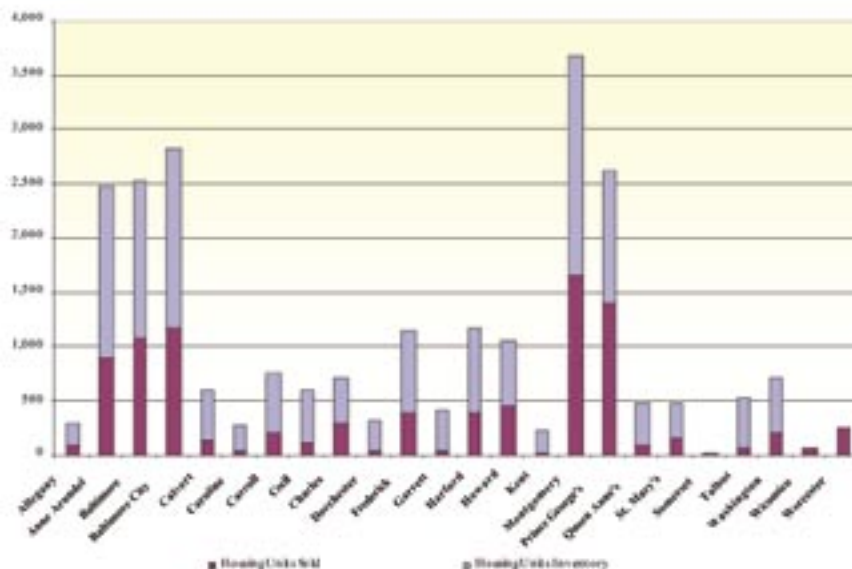
The Pending Home Sales Index (PHI) released by the National Association of Realtors is based on pending sales of existing homes, including both single-family and condominium units. Pending home sales is considered to be a leading indicator for the housing market as it typically leads the sale of a property by one to two months, from the signing date of a contract. The May Index stands at 124.9, which is 2.0 percent below April, but 3.7 percent above May 2004.

REAL ESTATE TRANSACTIONS IN MARYLAND – MAY 2005

COUNTY	DAYS ON MARKET			HOUSING UNITS SOLD			HOUSING UNITS INVENTORY		
	Current Month	Change From Last Year	Change From Last Month	Current Month	Change From Last Year	Change From Last Month	Month's Supply	Change From Last Year	Change From Last Month
Allegany	94	-27.1%	-27.7%	93	57.6%	78.8%	2.4	-46.3%	-43.8%
Anne Arundel	37	-7.5%	-15.9%	906	10.2%	23.6%	1.7	-1.9%	-14.8%
Baltimore	31	-13.9%	-22.5%	1,090	2.1%	11.1%	1.3	5.3%	-4.4%
Baltimore City	54	-30.8%	-28.0%	1,175	10.3%	8.6%	1.4	-21.0%	1.2%
Calvert	47	-14.5%	-27.7%	155	10.7%	-6.6%	2.9	20.0%	33.6%
Caroline	92	-16.4%	-25.2%	41	10.8%	-16.3%	5.7	14.9%	27.2%
Carroll	43	-2.3%	-20.4%	223	-3.5%	14.9%	2.4	32.2%	-6.7%
Cecil	82	43.9%	34.4%	116	13.7%	-17.1%	4.1	6.6%	26.8%
Charles	21	-36.4%	-40.0%	306	22.9%	19.1%	1.3	14.5%	-1.1%
Dorchester	47	-14.5%	-47.8%	47	-14.5%	6.8%	6.0	33.1%	-6.0%
Frederick	28	-6.7%	-3.4%	387	-7.9%	-4.7%	2.0	32.1%	10.7%
Garrett	196	16.0%	-3.4%	46	0.0%	-34.3%	8.2	-4.6%	77.7%
Harford	36	5.9%	-10.0%	402	15.2%	22.6%	1.9	2.9%	-14.7%
Howard	23	27.8%	-8.0%	462	6.2%	20.3%	1.3	-3.2%	-11.9%
Kent	138	-33.3%	-19.8%	32	-8.6%	39.1%	6.1	19.8%	-18.5%
Montgomery	17	-10.5%	-22.7%	1,660	7.6%	22.0%	1.2	-6.2%	-11.0%
Prince George's	22	-31.3%	-26.7%	1,411	1.1%	11.5%	0.9	-18.9%	-6.6%
Queen Anne's	103	1.0%	-6.4%	88	-6.4%	15.8%	4.7	14.1%	-11.7%
St. Mary's	48	-5.9%	6.7%	175	44.6%	27.7%	1.8	-5.8%	-10.8%
Somerset	n/a	n/a	n/a	25	38.9%	13.6%	n/a	n/a	n/a
Talbot	102	-5.6%	-25.0%	64	-24.7%	-8.6%	7.2	50.2%	16.5%
Washington	57	-36.0%	-13.6%	214	34.6%	3.4%	2.4	-9.8%	-4.0%
Wicomico	n/a	n/a	n/a	84	86.7%	-17.6%	n/a	n/a	n/a
Worcester	n/a	n/a	n/a	257	82.3%	12.7%	n/a	n/a	n/a
Maryland	34	-17.6%	-21.9%	9,459	8.5%	12.9%	1.6	-3.1%	-5.0%

Source: Metropolitan Regional Information Systems, Inc. and Maryland Department of Housing and Community Development

REAL ESTATE TRANSACTIONS – MAY 2005



Source: Maryland Association of Realtors

April's downwardly revised reading of 127.5 was second only to a record of 128.1 in October 2004. The index projects robust home sales for June and July.

Home Sales Strong in Most Maryland Counties

Montgomery County had the highest sales in the State with 1,660 housing units sold in May, representing increases of 22.0 percent from April, and

7.6 percent from last year. Other jurisdictions with strong home sales in May include Prince George's County, Baltimore City, Baltimore County, and Anne Arundel County. High home sales across Maryland have reduced significantly the supply of existing homes, led by Prince George's County with a tight supply of 0.9 months in May. The supply was below 2 months in Montgomery, Howard, Baltimore, Charles,

...continues on page 7

Homeownership Affordability Indices

The Maryland Homeownership Affordability Indices for repeat and first-time homebuyers provide a framework within which housing affordability in Maryland counties and Baltimore City can be traced over time.

In May, the affordability index for repeat buyers was 98, signifying the ability of a typical repeat buyer to afford a house that is priced 2 percent below a median priced home. The affordability index for first-time buyers stood at 63, indicating that the typical first-time buyer could only afford a home priced 37 percent below the median priced home available to first-time buyers. Homebuyers' ability to buy a median priced home in Maryland dropped in May as the statewide index fell 2.4 percent from April, and by 13.3 percent compared to May 2004. The drop in the affordability indices resulted from an increase in home prices that overpowered a drop in mortgage rates and an estimated 0.2 percent rise in the median household income. The median sale price of existing homes in May increased to \$287,439 for repeat buyers, and to \$244,323 for first-time homebuyers, representing a growth of 4.2 percent from April. Freddie Mac's effective 30-year fixed mortgage rate

fell from 5.92 percent in April to 5.78 percent in May. Across the state, Montgomery County had the highest median housing price of \$429,900 for repeat buyers and \$365,415 for first-time buyers, up 19.1 percent from a year ago and up 6.1 percent from the previous month. However, Garrett County, the State's tourist destination in Western Maryland, was the least affordable jurisdiction with homeownership affordability indices of 53 for repeat buyers and 34 for first-time buyers. The median housing prices in Garrett County in May were \$323,250 for repeat buyers and \$274,763 for first-time buyers. Allegany County, on the other hand, with the housing affordability indices of 223 for repeat homebuyers and 144 for first-timers was the most affordable jurisdiction in Maryland. The May median housing prices in Allegany County were \$74,503 for repeat buyers and \$63,328 for first-time buyers. May's 4.2 percent increase in home prices statewide masked some of the variation across jurisdictions. Prices increased in 15 jurisdictions and fell in 9 jurisdictions. The largest price increase was 51.4 percent in Dorchester County, while the greatest drop was 17.9 percent in Allegany County. ■



The affordability index for first-time buyers stood at 63, indicating that the typical first-time buyer could only afford a home priced 37 percent below the median priced home available to first-time buyers.

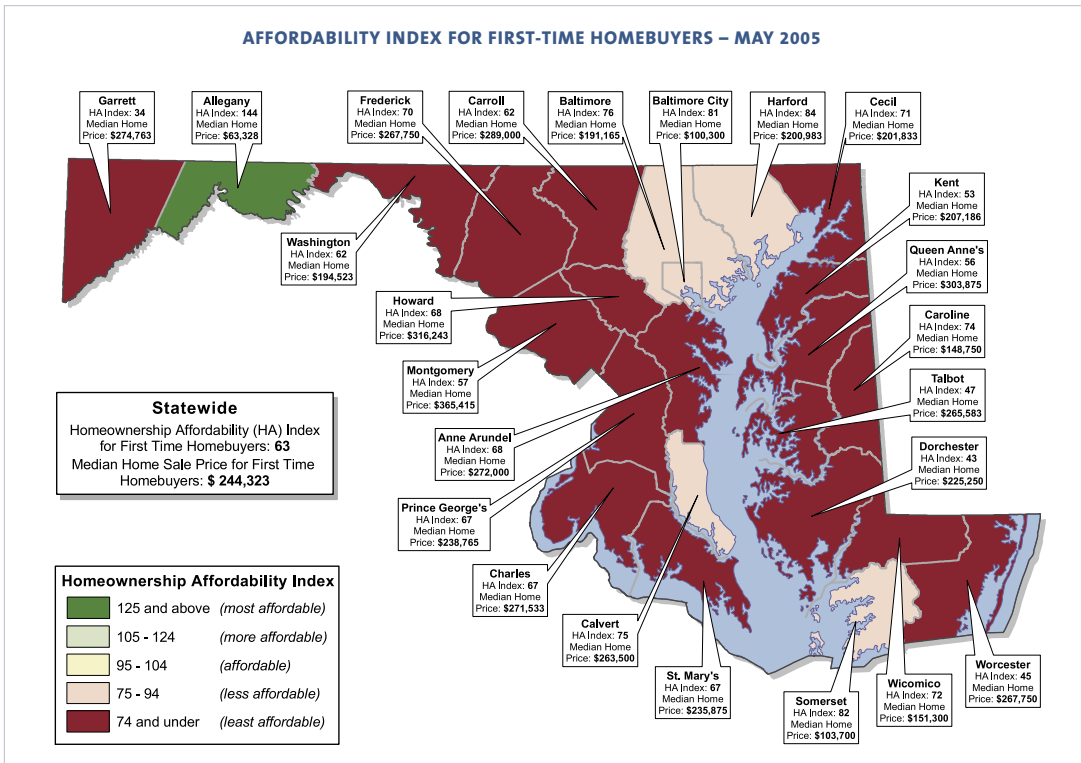
HOME SALE PRICES AND AFFORDABILITY INDICES – MAY 2005

COUNTY	MEDIAN HOME SALE PRICES				HOUSING AFFORDABILITY INDICES			
	Current Month		% Change From		Current Month		% Change From	
	Repeat Buyers	First Time Buyers	Last Year	Last Month	Repeat Buyers	First Time Buyers	Last Year	Last Month
Allegany	\$ 74,503	\$ 63,328	-12.2%	-17.9%	223	144	26.5%	23.9%
Anne Arundel	320,000	272,000	18.8%	-1.5%	106	68	-15.2%	3.4%
Baltimore	224,900	191,165	24.9%	-0.5%	118	76	-13.3%	2.3%
Baltimore City	118,000	100,300	38.8%	18.0%	126	81	-17.7%	-13.8%
Calvert	310,000	263,500	26.8%	5.1%	116	75	-22.1%	-3.2%
Caroline	175,000	148,750	1.4%	-10.3%	115	74	9.2%	13.4%
Carroll	340,000	289,000	28.4%	6.3%	97	62	-19.4%	-4.2%
Cecil	237,450	201,833	30.6%	11.2%	110	71	-24.5%	-8.5%
Charles	319,450	271,533	34.8%	8.3%	103	67	-22.1%	-6.1%
Dorchester	265,000	225,250	77.9%	51.4%	67	43	-40.5%	-32.8%
Frederick	315,000	267,750	26.1%	5.0%	108	70	-14.3%	-3.0%
Garrett	323,250	274,763	37.6%	-10.0%	53	34	-14.5%	13.0%
Harford	236,450	200,983	17.1%	5.8%	130	84	-11.4%	-3.8%
Howard	372,051	316,243	18.7%	6.3%	106	68	-15.9%	-4.3%
Kent	243,748	207,186	3.2%	4.6%	83	53	12.2%	-2.8%
Montgomery	429,900	365,415	19.1%	6.1%	88	57	-12.2%	-4.2%
Prince George's	280,900	238,765	24.8%	0.4%	104	67	-14.7%	1.4%
Queen Anne's	357,500	303,875	20.2%	-6.1%	88	56	-12.0%	8.4%
St. Mary's	277,500	235,875	36.7%	-7.5%	104	67	-18.8%	10.0%
Somerset	122,000	103,700	58.4%	1.7%	127	82	-33.6%	0.0%
Talbot	312,450	265,583	9.6%	-4.6%	73	47	3.0%	6.6%
Washington	228,850	194,523	25.1%	4.0%	96	62	-7.3%	-2.2%
Wicomico	178,000	151,300	27.1%	7.9%	112	72	-14.8%	-5.7%
Worcester	315,000	267,750	5.0%	-11.0%	70	45	6.1%	14.4%
Maryland	\$ 287,439	\$ 244,323	21.9%	4.2%	98	63	-13.3%	-2.4%

...Home Sales from page 6

Anne Arundel, St. Mary's, Hartford, and Frederick counties, as well as Baltimore City, Dorchester, Kent, Talbot, and Garrett counties had a balanced supply of existing homes in May with over 6.0 months' supply. In May, existing Maryland homes stayed on the market, on average, 34 days from the day the listing became active, a decline of 21.9 percent from last month, and down 17.6 percent from May 2004. Existing homes for sale had remained on the market for 196 days in Garrett County, the longest in Maryland, but for only 17 days in Montgomery County, the shortest. Existing homes remained on the market less than 50 days in Charles, Prince George's, Howard, Frederick, Baltimore, Harford, Anne Arundel, Carroll, Calvert, Dorchester, and St. Mary's counties. However, days on the market were above 100 in Talbot, Queen Anne's, Kent and Garrett counties. ■

Source: Maryland Department of Housing and Community Development



...National Economic Digest from front cover

the Beige Book reported that residential real estate markets remained strong, with some easing of demand in high-end markets. Furthermore, commercial real estate activity improved with declining office vacancy rates. Commercial lending activity was reported to be up in most reporting districts. The Beige Book reported that in most Federal Reserve Districts, manufacturing activity is expanding although at a slower rate in the Mid-April through May period. The report also noted that manufacturing firms are planning to increase capital spending, open or expand plants, and increase operations to meet expected demand. The Book indicated improving labor market conditions in most Districts, with several citing difficulty finding specific types of workers. Reports from most Districts indicated that price increases at the retail level remained modest. Some Districts noted that manufacturers were unable to pass along rising costs of raw materials because of the presence of long-term contracts and competitive pressures from foreign producers. However, prices were up for construction-related materials, such as lumber, cement, brick, tile, and glass in many Districts.

National Activity Index Shows Moderate Economic Growth

The Chicago Fed National Activity Index (CFNAI) in May was reported at +0.10, up from +0.05 in April, suggesting that the rate of growth of the US economy was close to its historical trend. Furthermore, this near-zero reading indicates near neutral inflationary pressures in the coming year. The above zero reading in the CFNAI was mostly due to the positive contribution of production-related indicators, as the result of a rebound in industrial production, factory output, and capacity utilization. Total industrial production increased 0.4 percent in May, compared to a 0.3 percent decline in April.

The consumption and housing-related indicators also made positive contributions to the CFNAI. The employment-related component of the CFNAI contributed negatively to the index, reflecting May's weak 78,000 payroll employment gain.

Consumer Confidence Rose in May

The Conference Board's Consumer Confidence Index rose by 2.7 points to 105.8 in June, despite rising energy prices. The gain in the index was broad-based, as the present situation index rose to 120.7 from 117.8, and the expectation index increased to 95.8 from 93.4. The recent improvements in consumers' assessments of the present situations and future conditions suggest that no drastic shift in consumer spending is expected over the next few months. Overall, the assessments of business conditions and income improved, but assessments of employment outlook weakened as consumers' views of future employment opportunities deteriorated moderately. Consumers' assessments of buying conditions weakened across the board. Consumers planning to buy homes within the next 6-months declined by 0.1 points to 3.4, while auto buying plans were down by 1.3 points to 6.5, despite new GM incentives. Fewer consumers are expecting interest rates to rise over the next year, while assessments of stock market prospects improved slightly.

The University of Michigan Consumer Sentiment Index for June also increased to 96 from May's value of 86.9. The June gain was broad-based, as the expectations component of the index rose 9.7 points to 85.0, and the present conditions component rose by 8.3 points to 113.2. The improvements in this index are due to the strengthening of the labor market, improving stock values, and declining long-term mortgage rates, despite rising energy costs. ■



Maryland Department of Housing and Community Development

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